



To the Board of Education
St. Joseph Public Schools
St. Joseph, Michigan 49085

As a regular part of our audit of the St. Joseph Public Schools, (the "District") for the year ended June 30, 2006, we reviewed the accounting and internal control procedures of the District that we considered relevant to the criteria established by the Michigan Department of Education. Based upon this review, we would like to make the following comments and recommendations:

CURRENT YEAR'S RECOMMENDATIONS:

None

PRIOR YEAR RECOMMENDATIONS:

INVESTMENT POLICY

The prior year recommendation for the School to review its investment policies to determine all common risk areas are identified and the appropriate level of risk for each area is quantified in accordance with GASB Statement #40 was implemented.

We would be happy to discuss these recommendations and comments with you at your convenience. We would also like to express our appreciation for the courtesy and cooperation extended to us during the engagement.

This report is intended solely for the information and use of the Board of Education, management, and others within the School District.

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher
St. Joseph, Michigan
October 12, 2006

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
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ST. JOSEPH PUBLIC SCHOOLS

FINANCIAL REPORT

WITH SUPPLEMENTAL INFORMATION

JUNE 30, 2006

ST. JOSEPH PUBLIC SCHOOLS
St. Joseph, Michigan
June 30, 2006

BOARD OF EDUCATION

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Dr. Carole Schmidt

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Independent Auditor's Report

To the Board of Education of the
St. Joseph Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Joseph Public Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of St. Joseph Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of St. Joseph Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2006, on our consideration of the District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 30 are not a required part of the basic financial statements but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Joseph Public Schools basic financial statement. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Schaffer & Layher
October 12, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of the
St. Joseph Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Joseph Public Schools as of and for the year ended June 30, 2006, which collectively comprise St. Joseph Public School's basic financial statements and have issued our report thereon dated October 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

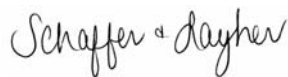
In planning and performing our audit, we considered St. Joseph Public Schools internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Joseph Public Schools financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of St. Joseph Public Schools in a separate letter dated October 12, 2006.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Schaffer & Layher
October 12, 2006

St. Joseph Public Schools, a K-12 School District located in Berrien County, Michigan, has adopted the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34"). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2006 of the management of St. Joseph Public Schools ("the School District").

Generally accepted accounting principles ("GAAP") and GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Capital Projects Funds, Debt Service Funds, and the School Service Funds which are comprised of: Food Service and Athletics Funds.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

The School District as Trustee — Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These are excluded activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Private Purpose Trust fund is an unbudgeted fund which is used to provide for general education needs and to pay scholarships for selected high school students. The Agency Fund is an unbudgeted fund that accounts for the activities of student groups and other types of clearing accounts.

Summary of Net Assets

The District had \$13,738,338 and \$14,401,872 in net assets as of June 30, 2006 and 2005. The net assets of the District as of June 30, 2006 and 2005 are summarized in the table below:

Assets:	June 30, 2006	June 30, 2005
Cash and cash equivalents	\$ 2,728,811	\$ 1,703,751
Receivables (net of allowance of \$30,000)	3,204,484	2,928,331
Net capital assets	32,612,044	33,734,563
Other assets	608,050	176,144
	\$ 39,153,389	\$ 38,542,789
Liabilities:		
Accounts payable and other accrued liabilities	\$ 1,791,259	\$ 1,922,254
Other obligations	2,983,352	1,476,335
Bonds payable	20,640,440	20,742,328
	\$ 25,415,051	\$ 24,140,917
Net Assets:		
Investment in capital assets - net of related debt	\$ 11,971,604	\$ 12,992,235
Restricted for:		
Debt service	193,677	407,369
Capital projects	665,342	170,274
Other	249,579	162,509
Unrestricted	658,136	669,485
Total Net Assets	\$ 13,738,338	\$ 14,401,872

Analysis of Financial Position

During fiscal year ended June 30, 2006, the District's net assets decreased by \$663,534. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The District's expenditures from General Fund operations exceeded revenues by \$808,683 for the fiscal year ended June 30, 2006. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

B. Debt Payments

The District made principal payments on bonded and note payable, long term debt obligations which reduced the amount of the district's long term liabilities. Principal payments made during the year ended June 30, 2006 totaled \$9,551,888 and reduced the 2001 School Improvement Bonds, 2005 School Building & Site Bonds and note payable. Included in principal payments is \$8,605,000 related to advance refunding discussed later.

Analysis of Financial Position, Concluded**C. Net Investment in Capital Assets (concluded)**

The District's net investment in capital assets decreased by \$1,122,519 during the year. The net activity for the year is summarized in the following table:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital Assets	\$ 44,658,155	\$ 162,900	\$ (455,000)	\$ 44,366,055
Less: accumulated depreciation	(10,923,592)	(1,149,469)	319,050	(11,754,011)
Net investment capital outlay	<u>\$ 33,734,563</u>	<u>\$ (986,569)</u>	<u>\$ (135,950)</u>	<u>\$ 32,612,044</u>

This year, the School District's additions of \$162,900 in capital assets included building improvements at the administration offices at North Lincoln School. The District continued depreciating the improvements from the 2001 School Improvement Bonds, resulting in a large amount of depreciation. The School District also sold the Jefferson and North Lincoln Schools in fiscal year 2006. The Jefferson sale is reflected in the Capital Projects Sinking Fund and the North Lincoln sale is recorded in the General Fund.

D. Advance Refunding and Capital Project Bonds

During fiscal year 2006, the School District issued \$8,905,000 of unlimited tax refunding bonds to provide resources to place in escrow for the purpose of generating resources for future debt service payments of \$8,605,000.

Also in fiscal year 2006, the Capital Projects Sinking Fund issued \$545,000 general obligation limited tax bonds for the purpose of completing large maintenance projects.

E. Early Retirement Incentive

In the June 30, 2005 fiscal year the School District approved an early retirement incentive program. As a result, an accrual of \$1,476,335 and related expense was recorded at June 30, 2005. At June 30, 2006, \$983,352 of the accrual remains. Future payments are as follows:

Fiscal Year June 30, 2007	\$ 491,676
Fiscal Year June 30, 2008	<u>491,676</u>
	<u>\$ 983,352</u>

Results of Operations

The District-wide results of operations for the fiscal year ended June 30, 2006 and 2005 is summarized in the table below:

	June 30, 2006	June 30, 2005
Revenues:		
General Revenues:		
Property taxes levied for general operations	\$ 4,610,040	\$ 4,230,917
Property taxes levied for debt service	1,621,627	1,702,562
Property taxes levied for capital projects	767,864	733,729
State of Michigan unrestricted foundation aid	15,306,552	15,073,360
Other general revenues	623,833	206,513
Total general revenues	\$ 22,929,916	\$ 21,947,081
Operating Grants:		
Federal	\$ 483,869	\$ 476,314
State of Michigan	583,532	623,403
Other operating grants	429,408	347,337
Total operating grants	\$ 1,496,809	\$ 1,447,054
Charges for Services:		
Food service	\$ 704,719	\$ 665,298
Athletics	301,306	194,214
Other charges for services	45,002	46,013
Total charges for services	\$ 1,051,027	\$ 905,525
Total revenues	\$ 25,477,752	\$ 24,299,660
Expenses:		
Instruction and instructional support	\$ 12,658,570	\$ 14,690,078
Support services	9,366,587	8,747,715
Community services	105,206	-
Food service	956,899	852,226
Athletics	748,528	620,991
Interest on long-term debt	1,156,027	989,206
Depreciation	1,149,469	1,064,615
Total expenses	\$ 26,141,286	\$ 26,964,831
Change in Net Assets	\$ (663,534)	\$ (2,665,171)
Beginning Net Assets	14,401,872	17,067,043
Ending Net Assets	\$ 13,738,338	\$ 14,401,872

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following variables:

1. State of Michigan State Aid Act per student foundation allowance,
2. Student Enrollment - Blended at 75 percent of current year fall count and 25 percent of prior year winter count, and
3. The District's non-homestead levy.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The St. Joseph Public Schools' net foundation allowance for the fiscal year 2006 was \$7,217 per student. This net amount increased by \$175 over the District's 2004-2005 foundation allowance of \$7,042 per student. The net foundation allowance for the 2006-2007 school year will be \$7,427.

Student Enrollment

The District's student enrollment for the fall count of 2005-2006 was 2,816 students. The District's enrollment increased slightly from the prior year's student count. The following summarizes fall student enrollments in the past five years:

<u>Fiscal Year</u>	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2005-2006*	2,816	3
2004-2005	2,813	(33)
2003-2004	2,846	(15)
2002-2003	2,861	37
2001-2002	2,824	39

*First year of school of choice resulted in 80 school of choice students

Subsequent to year end June 30, 2006, preliminary student enrollments for 2006-2007 indicate that enrollments may increase by about 10 students from 2005-2006, and included in 2006-2007 student enrollments is 155 school of choice students.

B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)

The District levies approximately 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property levy for the 2005-2006 fiscal year was \$4,610,040. The non-homestead tax levy increased by 8.5 percent over the prior year.

B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes), Concluded

The following summarizes the District's non-homestead levy over the past five years:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>	<u>% Increase from Prior Year</u>
2005-2006	4,610,040	8.5%
2004-2005	4,245,844	4.6%
2003-2004	4,059,725	2.2%
2002-2003	3,972,962	3.6%
2001-2002	3,833,811	4.4%

4.66% Average Increase

C. Debt and Capital Projects Sinking Fund

The District's debt and capital projects sinking fund levies are based on the taxable valuation of all properties: homestead and non-homestead. The debt fund levy is used to pay principal and interest on bond obligations and the capital projects sinking fund is for capital improvements in the District.

For 2004-2005, the District's debt millage levy was 2.10 mills that generated a levy of \$1,621,627. The capital projects sinking fund levy was .9775 mills and generated a levy of \$767,864.

D. Food Sales to Students & Adults (School Lunch Program)

The District's food and milk sales to students and adults increased by \$39,421, to \$704,719, from the prior school year. School lunch price and milk prices for 2005–2006 school year were the same as 2004-2005.

The total expenditures from Food Service operations exceeded total revenues for the year by \$17,030.

General Fund Expenditures Budget Vs. Actual—Five Year History

	<u>Expenditures Preliminary Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Audit</u>	<u>Variance: Audit vs. Prelim. Budget</u>	<u>Variance: Audit vs. Final Budget</u>
2005-2006	21,386,489	22,135,000	22,259,556	4.10%	0.56%
2004-2005	21,762,111	21,819,305	21,963,397	0.92%	0.66%
2003-2004	20,917,864	21,019,099	20,832,877	(0.41%)	(0.89%)
2002-2003	20,713,439	21,027,373	20,753,901	0.10%	(1.30%)
2001-2002	20,247,972	20,420,922	20,328,768	0.39%	(0.45%)
	Five Year Average (Over/-Under) Budget			1.02%	(0.28%)

General Fund Revenues Budget Vs. Actual—Five Year History

	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Variance: Audit vs. Prelim. Budget	Variance: Audit vs. Final Budget
2005-2006	20,679,364	21,310,000	21,450,873	(3.73%)	(0.66%)
2004-2005	20,787,959	20,848,486	20,748,633	0.19%	0.48%
2003-2004	20,909,644	20,818,541	20,689,496	1.05%	0.62%
2002-2003	20,716,714	21,024,556	20,891,483	(0.08%)	0.06%
2001-2002	20,254,124	20,162,627	19,951,125	1.50%	1.05%
	Five Year Average (Over/-Under) Budget			(0.21%)	0.31%

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, St. Joseph Public Schools amends its budget during the school year. For fiscal year June 30, 2006, the budget was amended in February 2006 and June 2006. The June 2006 budget amendment was the final budget for the fiscal year.

Contacting the District's Financial Management

The financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Business Office at St. Joseph Public Schools.

ST. JOSEPH PUBLIC SCHOOLSSTATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 2,728,811
Receivables (net of allowance of \$30,000)	3,204,484
Due from other governmental units	13,296
Inventories	37,860
Prepaid expenditures	556,894
Total current assets	\$ 6,541,345
Noncurrent assets:	
Capital assets	\$ 44,366,055
Less: accumulated depreciation	(11,754,011)
Total noncurrent assets	\$ 32,612,044
Total Assets	\$ 39,153,389
Liabilities	
Current liabilities:	
Accounts payable	\$ 217,740
Accrued payroll and other liabilities	1,573,519
Revenue anticipation notes payable	2,000,000
Notes and bonds payable, due within one year	1,002,650
Other obligations, due within one year	491,676
Total current liabilities	\$ 5,285,585
Noncurrent liabilities:	
Notes and bonds payable, due in more than one year	\$ 19,637,790
Other obligations, due in more than one year	491,676
Total noncurrent liabilities	\$ 20,129,466
Total Liabilities	\$ 25,415,051
Commitments and Contingencies	
Net Assets	
Investment in capital assets - net of related debt	\$ 11,971,604
Restricted for:	
Debt service	193,677
Capital projects	665,342
Other	249,579
Unrestricted	658,136
Total Net Assets	\$ 13,738,338
Total Liabilities and Net Assets	\$ 39,153,389

See accompanying notes to the financial statements.

ST. JOSEPH PUBLIC SCHOOLSSTATEMENT OF ACTIVITIES
JUNE 30, 2006

Functions/Programs	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Primary government -				
Governmental activities:				
Instruction	\$ 12,658,570	\$ 45,002	\$ 984,538	\$ (11,629,030)
Support services	9,366,587	-	280,681	(9,085,906)
Community Services	105,206			(105,206)
Food services	956,899	704,719	231,590	(20,590)
Athletics	748,528	301,306	-	(447,222)
Interest on long-term debt	1,156,027	-	-	(1,156,027)
Depreciation (unallocated)	1,149,469	-	-	(1,149,469)
	<u>\$ 26,141,286</u>	<u>\$ 1,051,027</u>	<u>\$ 1,496,809</u>	<u>\$ (23,593,450)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 4,610,040
Property taxes, levied for debt purposes				1,621,627
Property taxes, levied for capital project purposes				767,864
State aid not restricted to specific purposes				15,306,552
Interest and investment earnings				102,020
Gain on sale of assets				476,940
Other				<u>44,873</u>
Total general revenues				<u>\$ 22,929,916</u>
Change in Net Assets				\$ (663,534)
Net Assets - beginning of year				<u>14,401,872</u>
Net Assets - end of year				<u>\$ 13,738,338</u>

See accompanying notes to the financial statements.

ST. JOSEPH PUBLIC SCHOOLS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Capital Projects Sinking Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Assets				
Cash and investments	\$ 1,746,867	\$ 720,392	\$ 261,552	\$ 2,728,811
Receivables (net of allowance of \$30,000)	3,189,948	-	14,536	3,204,484
Due from other governmental units	11,152	2,144	-	13,296
Due from other governmental funds	56,093	32,145	51,953	140,191
Due from fiduciary fund	-	-	-	-
Inventories	16,500	-	21,360	37,860
Prepaid expenditures	206,719	-	5,000	211,719
Total Assets	<u>\$ 5,227,279</u>	<u>\$ 754,681</u>	<u>\$ 354,401</u>	<u>\$ 6,336,361</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 133,401	\$ 77,339	\$ 7,000	\$ 217,740
Accrued salaries and withholdings	1,428,390	-	-	1,428,390
Revenue anticipation note payable	2,000,000	-	-	2,000,000
Due to other governmental funds	71,219	12,879	56,093	140,191
Total Liabilities	<u>\$ 3,633,010</u>	<u>\$ 90,218</u>	<u>\$ 63,093</u>	<u>\$ 3,786,321</u>
Fund Balance				
Reserved for inventories	\$ 16,500	\$ -	\$ 21,360	\$ 37,860
Reserved for prepaids	206,719	-	5,000	211,719
Reserved for debt service	-	-	193,677	193,677
Reserved for capital projects	-	664,463	879	665,342
Board designation	365,000	-	-	365,000
Unreserved and undesignated	1,006,050	-	-	1,006,050
Unreserved and undesignated - food service	-	-	16,417	16,417
Unreserved and undesignated - athletics	-	-	53,975	53,975
Total Fund Balance	<u>\$ 1,594,269</u>	<u>\$ 664,463</u>	<u>\$ 291,308</u>	<u>\$ 2,550,040</u>
Total Liabilities and Fund Balance	<u>\$ 5,227,279</u>	<u>\$ 754,681</u>	<u>\$ 354,401</u>	<u>\$ 6,336,361</u>

See accompanying notes to the financial statements.

ST. JOSEPH PUBLIC SCHOOLS**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2006**

Total Fund Balances - Governmental Funds **\$ 2,550,040**

Amounts reported for governmental activities in the statement
of net assets are different because:

Prepaid interest associated with tax refunding bonds, net of current year expense 345,175

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

Cost of the capital assets 44,366,055

Accumulated depreciation (11,754,011)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Bonds payable (20,640,440)

Accrued severance pay (983,352)

Accrued interest payable is not included as a liability in
governmental activities

(145,129)

Total net assets - Governmental activities **\$ 13,738,338**

See accompanying notes to the financial statements.

ST. JOSEPH PUBLIC SCHOOLS

STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects Sinking Fund	Other Nonmajor Governmental Funds	Total
Revenues				
Property taxes	\$ 4,610,040	\$ 767,864	\$ 1,621,627	\$ 6,999,531
Local sources	214,702	487,890	1,006,025	1,708,617
State sources	15,890,083	-	34,045	15,924,128
Federal sources	286,324	-	197,545	483,869
Interdistrict sources	395,537	-	-	395,537
Earnings on investments	54,187	16,411	31,422	102,020
Total Revenues	<u>\$ 21,450,873</u>	<u>\$ 1,272,165</u>	<u>\$ 2,890,664</u>	<u>\$ 25,613,702</u>
Expenditures				
Current:				
Instruction and Instructional support services	\$ 13,112,321	\$ -	\$ -	\$ 13,112,321
Supporting services	8,488,860	872,813	1,710,341	11,072,014
Community services	105,206	-	-	105,206
Debt service				
Principal on long-term debt	21,888	270,000	355,000	646,888
Interest on long-term debt	-	11,876	1,103,494	1,115,370
Capital outlay	-	162,900	-	162,900
Intergovernmental payments	39,232	-	-	39,232
Total Expenditures	<u>\$ 21,767,507</u>	<u>\$ 1,317,589</u>	<u>\$ 3,168,835</u>	<u>\$ 26,253,931</u>
Excess (Deficiency) of Revenues over (under)	<u>\$ (316,634)</u>	<u>\$ (45,424)</u>	<u>\$ (278,171)</u>	<u>\$ (640,229)</u>
Other Financing Sources (Uses)				
Operating transfers in	\$ -	\$ -	\$ 10,450,575	\$ 10,450,575
Refunding bonds issued	-	-	8,905,000	8,905,000
Bond premiums	-	-	100,133	100,133
Proceeds from loan	-	545,000	-	545,000
Payment to bond escrow agent	-	-	(9,407,578)	(9,407,578)
Operating transfers out	(492,049)	-	(9,958,526)	(10,450,575)
Total Other Financing Sources (Uses)	<u>\$ (492,049)</u>	<u>\$ 545,000</u>	<u>\$ 89,604</u>	<u>\$ 142,555</u>
Net Change in Fund Balances	<u>\$ (808,683)</u>	<u>\$ 499,576</u>	<u>\$ (188,567)</u>	<u>\$ (497,674)</u>
Fund Balances - Beginning of year	2,402,952	164,887	479,875	3,047,714
Fund Balances - End of year	<u><u>\$ 1,594,269</u></u>	<u><u>\$ 664,463</u></u>	<u><u>\$ 291,308</u></u>	<u><u>\$ 2,550,040</u></u>

See accompanying notes to the financial statements.

ST. JOSEPH PUBLIC SCHOOLS

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (497,674)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(1,149,469)
Capital outlay	<u>162,900</u>
Total	\$ (986,569)
Loan proceeds from note payable is a revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(9,450,000)
Accrued interest is recorded in the statement of activities when incurred: it is not reported in governmental funds until paid	16,613
Decreases in severance pay are reported as expenditures as financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6	492,983
Prepaid interest in relation to advance refunding of bonds	366,750
Prepaid interest associated with advance refunding bonds	(21,575)
The proceeds from the sale of buildings \$612,890 are reported as revenue in the governmental funds. However, the cost of the buildings and any remaining book value of capital assets sold is removed from the capital assets account in the statement of net assets and offset against the sale proceeds resulting in a "gain on sale" of capital assets in the statement of activities. Thus, more revenue is reported in the governmental funds than the gain in the statement of activities.	(135,950)
Repayment of bond and note payable principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<u>9,551,888</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (663,534)</u></u>

See accompanying notes to the financial statements.

ST. JOSEPH PUBLIC SCHOOLS

STATEMENTS OF FIDUCIARY NET ASSETS AND CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

**Statement of Fiduciary Net Assets
As of June 30, 2006**

	Private-Purpose Trusts			Agency Fund-
	Scholarship Fund	4th R Fund	Total	Student Activities
Assets:				
Cash and cash equivalents	\$ 51,076	\$ 418,866	\$ 469,942	\$ 107,899
Certificate of deposit	-	-	-	14,543
Total assets	<u>\$ 51,076</u>	<u>\$ 418,866</u>	<u>\$ 469,942</u>	<u>\$ 122,442</u>
Liabilities:				
Due to student groups	\$ -	\$ -	\$ -	\$ 122,442
Due to general fund	-	-	-	-
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,442</u>
Net Assets:				
Reserved for scholarships	\$ 51,076	\$ -	\$ 51,076	
Reserved for educational purpose	-	418,866	418,866	
Total net assets	<u>\$ 51,076</u>	<u>\$ 418,866</u>	<u>\$ 469,942</u>	
Total liabilities and net assets	<u>\$ 51,076</u>	<u>\$ 418,866</u>	<u>\$ 469,942</u>	

**Statement of Changes in Fiduciary Net Assets
As of June 30, 2006**

	Private-Purpose Trusts		
	Scholarship Fund	4 R Fund	Total
Additions:			
Interest	\$ 1,578	\$ 12,836	\$ 14,414
Deductions:			
Scholarships awarded	(1,000)	-	(1,000)
Change in net assets	<u>\$ 578</u>	<u>\$ 12,836</u>	<u>\$ 13,414</u>
Net Assets-Beginning	<u>50,498</u>	<u>406,030</u>	<u>456,528</u>
Net Assets-Ending	<u>\$ 51,076</u>	<u>\$ 418,866</u>	<u>\$ 469,942</u>

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the St. Joseph Public Schools (the “School District”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (“GASB”) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts’ reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District Wide and Fund Financial Statements

The District-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements — The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District-Wide Statements (concluded) — Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements — Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

The Capital Projects Sinking Fund is the fund that accounts for the use of building and site fund taxes and other revenues collected for the purpose of repairing and maintaining school property.

Additionally, the government reports the following fund types:

2001 School Improvement Bonds (Capital Projects) is the fund that accounts for the expenditures to build school improvements used with the proceeds of the bond issue the District's voters approved in 2001.

The School Service Funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic and Food Services Funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Debt Service Funds are the funds used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and other related costs.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents. The School District also maintains a Scholarship Fund and 4R Fund to provide for general education needs and pay scholarships for selected high school students. These scholarships are paid from the principal and investment earnings of the fund, and are treated as private-purpose trusts.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments — Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables — In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For St. Joseph Public Schools, taxpayers in the city of St. Joseph and St. Joseph, Royalton, and Lincoln Townships, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100 percent of the taxes which are due September 15. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories — Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used.

Prepaid Items — Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements

Capital Assets — Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The school district does not have infrastructure type assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

Compensated Absences — Employees are allowed to accrue varying amounts of sick leave each year depending on employee classification. However, no liability for unused sick leave is accrued as such amounts cannot be reasonably estimated as compensation for future absences are contingent upon absences being caused by future illness. Vacation accruals have been recorded in the financial statements for those employees who earn and are allowed to accrue and be paid for unused vacation upon termination.

Long-Term Obligations — In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Fund Equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data — Comparative data is not included in the district's financial statements.

Estimates — The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for major funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year. There were no encumbrances at year end.

Excess of Expenditures Over Appropriations in Budgeted Funds - The school district had expenditures that exceeded appropriations in the following budgeted functions:

Instruction – Basic Programs	\$ 247,840
Instruction – Added Needs	59,181
Supporting Services - Pupil	27,881
Supporting Services - Transportation	3,797
Community Services	16,406
Debt Service	21,888
Intergovernmental Payments	18,232

NOTE 3. DEPOSITS AND INVESTMENTS

As of June 30, 2006, the School District deposits and investments include the following:

	Balance Sheet Classification		
	Cash and Cash		
	Equivalents	Investments	Total
Deposits	\$ 2,654,729	\$ -	\$ 2,654,729
Investments	74,082	-	74,082
	<u>\$ 2,728,811</u>	<u>\$ -</u>	<u>\$ 2,728,811</u>

Bank Deposits:

All cash of the School District is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

Custodial Credit Risk-Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2006, \$3,984,538 of the School District's bank balance of \$4,099,261 was exposed to custodial credit risk, because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Investments:

Michigan law permits investments in: 1) Bonds and other obligations of the United States Governments, 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively, 3) Certain commercial paper, 4) United States Government repurchase agreements, 5) Banker's acceptance of the United States Bank, and 6) Certain mutual funds. The School District has put further restrictions on those investments through its current policy, and the following investment is permitted by law and policy.

Investment Type	Fair Value	Current	Investment Maturities		
			1 - 5 years	6 - 10 years	More than 10
Investment Pools	<u>\$ 74,082</u>	<u>\$ 74,082</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk: In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

NOTE 3. DEPOSITS AND INVESTMENTS, (CONCLUDED)

Credit Risk: State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by Nationally Recognized Statistical Rating Organizations (“NRSRO’s”). As of June 30, 2006, the School District’s investment in the investment pool was rated AAAm by Standard’s & Poor.

Concentration of Credit Risk: The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All of the School District’s investments are in investment pools which represent 100% of the School District’s total investments.

Custodial Credit Risk—Investments: For an Investment, this is the risk that in the event of bank failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in the investment pool of \$74,082, the School District has a custodial credit risk exposure of \$74,082, because the related securities are uninsured, unregistered, and held by the School District’s brokerage firm which is also the counterparty for these particular securities.

NOTE 4. RECEIVABLES AND PAYABLES

Receivables as of year-end for the School District's individual major funds, and the non-major funds and fiduciary funds in the aggregate, including any allowance for uncollectible amounts are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Intergovernmental	\$ 11,152	\$ 2,144	\$ 13,296
Trade	3,189,948	14,536	3,204,484
	<u>\$ 3,201,100</u>	<u>\$ 16,680</u>	<u>\$ 3,217,780</u>

Payables as of year-end for the School District's individual major funds, and the non-major and fiduciary funds in the aggregate, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Payables:			
Trade	\$ 133,401	\$ 84,339	\$ 217,740
	<u>\$ 133,401</u>	<u>\$ 84,339</u>	<u>\$ 217,740</u>

Note 5. Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Assets not being depreciated:				
Land	\$ 619,200	\$ -	\$ (12,500)	\$ 606,700
Capital assets being depreciated:				
Building and building improvements	\$ 40,900,122	\$ 141,200	\$ (442,500)	\$ 40,598,822
Land improvements	673,000	-	-	673,000
Buses and other vehicles	1,361,480	-	-	1,361,480
Furniture and equipment	1,104,353	21,700	-	1,126,053
Subtotal	\$ 44,038,955	\$ 162,900	\$ (442,500)	\$ 43,759,355
Accumulated depreciation:				
Building and building improvements	\$ 9,180,706	\$ 911,048	\$ (319,050)	\$ 9,772,704
Land improvements	261,999	54,434	-	316,433
Buses and other vehicles	1,005,248	90,248	-	1,095,496
Furniture and equipment	475,639	93,739	-	569,378
Subtotal	\$ 10,923,592	\$ 1,149,469	\$ (319,050)	\$ 11,754,011
Net capital assets being depreciated	\$ 33,115,363			\$ 32,005,344
Net capital assets	\$ 33,734,563			\$ 32,612,044

Depreciation expense of \$1,149,469 was not charged to activities as the district considers its assets to impact multiple activities and allocation is not practical.

NOTE 6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The general fund transfers monies to the athletic and food service funds to subsidize athletic and food service activities.

The composition of interfund balances is as follows:

Due To/From Other Funds:		
Receivable Fund	Payable Fund	Amount
Other Governmental Funds	General Fund	\$ 71,219
Other Governmental Funds	Other Governmental Funds	\$ 12,879
General Fund	Other Governmental Funds	\$ 56,093
Interfund Transfers:		
Transfer In:	Transfer Out:	Amount
Other Governmental Funds	General Fund	\$ 492,049
Other Governmental Funds	Other Governmental Funds	\$ 9,958,526

NOTE 7. REVENUE ANTICIPATION NOTES

At June 30, 2006, the School District has outstanding a \$2,000,000 revenue anticipation note (state-aid note). The note has an interest rate of 3.60%, and matures August 18, 2006. The School District has funds set aside to pay-off this note. The note is secured by the full faith and credit of the School District, as well as, pledged State Aid.

NOTE 8. LONG-TERM DEBT

The school district issues bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities:</i>					
Bonds	\$ 20,625,000	\$ 9,450,000	\$ (9,530,000)	\$ 20,545,000	\$ 980,000
Note Payable	117,328	-	(21,888)	95,440	22,650
Bonds	<u>\$ 20,742,328</u>	<u>\$ 9,450,000</u>	<u>\$ (9,551,888)</u>	<u>\$ 20,640,440</u>	<u>\$ 1,002,650</u>
Severance Pay Contract	\$ 1,476,335	\$ -	\$ (492,983)	\$ 983,352	\$ 491,676
Total Long-Term Debt Worth	<u>\$ 22,218,663</u>	<u>\$ 9,450,000</u>	<u>\$ (10,044,871)</u>	<u>\$ 21,623,792</u>	<u>\$ 1,494,326</u>

Annual debt service requirements to maturity for the above Governmental bond and note obligations are as follows:

	<i>Governmental Activities:</i>		
	Principal	Interest	Total
2007	1,002,650	873,875	1,876,525
2008	753,438	840,099	1,593,537
2009	779,254	812,833	1,592,087
2010	810,098	782,089	1,592,187
2011	820,000	750,338	1,570,338
2012-2016	4,620,000	3,215,768	7,835,768
2017-2021	5,520,000	2,199,150	7,719,150
2022-2026	<u>6,335,000</u>	<u>958,900</u>	<u>7,293,900</u>
	<u>\$ 20,640,440</u>	<u>\$ 10,433,052</u>	<u>\$ 31,073,492</u>

Interest expense of \$1,115,370 was not charged to activities as the School District considers its debt and related assets to impact multiple activities and allocation was not practical.

NOTE 8. LONG-TERM DEBT, (CONCLUDED)

Advance Refunding – In the current year, the School District defeased certain unlimited tax school improvement bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for defeased bonds are not included in the School District's financial statements. As of June 30, 2006, \$8,605,000 of bonds considered defeased are still outstanding.

During fiscal 2006, the District issued \$8,905,000 of unlimited tax refunding bonds plus premium on capital appreciation bonds to provide resources to place in escrow account for the purpose of generating resources for future debt service payments of \$32,145,187 of unlimited tax school improvement bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District-wide financial statements. The reacquisition price exceeded the net carrying amount of the refunded debt by \$35,482. This amount is being netted against the refunding debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next seventeen (17) years by \$1,019,805 and resulted in an economic gain of \$778,196.

Governmental Activities:

General obligation bonds consist of:

\$22,455,000-2001 School Building and Site Bonds (general obligation-unlimited tax); payable in annual installments of \$290,000 to \$1,325,000 beginning 5/1/02 through 5/1/26; interest at 2.7% to 5.00%	\$ 11,365,000
\$8,905,000 2005 Refunding Bonds; payable in annual installments of \$30,000 to \$1,160,000 beginning 5/1/07 through 5/1/2022; interest at 3.0% to 4.0%	8,905,000
\$545,000-2005 School Building and Site Bonds (general obligation-limited tax); payable in installments of \$270,000 in 2006 and \$275,000 in 2007; interest at 3.10% to 3.20%	275,000
	<u>\$ 20,545,000</u>

Notes payable consists of:

\$138,480-Notes payable to Horizon Bank (general obligation-limited tax); payable in semi- annual installments of \$12,874 beginning 11/21/04 through 5/21/10; interest at 3.45%	\$ 95,440
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NOTE 9. RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims, workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10. DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2006, 2005, and 2004 were \$2,084,338, \$1,988,694 and \$1,721,156, respectively.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

NOTE 11. PROVISION FOR UNCOLLECTIBLE PROPERTY TAXES

The Berrien County Treasurer's office assumes the responsibility of collecting delinquent real and personal property taxes. The County advances real property taxes in anticipation of collection, but it remits delinquent personal property taxes as it receives payment.

The St. Joseph Public Schools has been advised that it is responsible for repayment to the County, plus interest, of any uncollectible real property taxes.

Accordingly, a provision for uncollectible real property taxes has been established to provide for such a repayment to the County.

NOTE 12. FUND BALANCE DESIGNATION

A portion of the general fund has been designated for equipment and school bus purchases totaling \$365,000.

NOTE 13. OTHER BENEFITS

In addition to the pension benefits described in Note 9, the School District also provides 403(b) tax deferred annuity plans. All employees are eligible to participate in the plans and are fully vested immediately for all contributions.

The School District is also able to offer a tax deferred “buy-in” program for years of service for all eligible employees in the state-provided pension plan. The percentage rate for the employee’s contribution was calculated based on the previous year’s salary and age.

NOTE 14. FOUNDATION

The School District has established a Foundation that has a 501(c)(3) status with the Internal Revenue Service. There has been limited activity at the Foundation.

NOTE 15. CAPITAL PROJECTS SINKING FUND

Pursuant to Public Act 451 of 1976, as amended, the School District has levied a sinking fund tax which must comply with §1212 of the School Code and the interpretations of the Department of Treasury. The sinking fund tax was approved by the school electors for 1 mill for five years beginning with the 2001 calendar year. This sinking fund tax was renewed by the school electors for ten additional years beginning with the 2006 calendar year. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE 16. 2001 SCHOOL IMPROVEMENT BOND EXPENDITURES

The 2001 School Improvement Bond capital projects fund included capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with applicable provisions of §1351a of the Revised School Code.

NOTE 17. RECONCILIATION WITH R7120

The following reconciles the current year federal revenues reported with the R7120:

	Amount
Federal Sources per General Fund	\$ 286,324
Federal Sources per School Service Fund	197,545
	<u>\$ 483,869</u>
Less:	
Federal deferred revenue recognized in current year	(53,500)
Items passed through B.C.I.S.D.	(18,648)
Food distribution commodities	(57,960)
Federal revenue in current year accounts receivable	(214,175)
Current year receipts reported on the R7120	<u><u>\$ 139,586</u></u>

NOTE 18. OPERATING LEASES

The School District leases copiers under an operating lease. This lease was entered into in September 2005. Rent expense was \$36,624 for the fiscal year ended June 30, 2006. Future minimum rentals are as follows: 6/30/07 - \$43,949; 6/30/08 - \$43,949; 6/30/09 - \$43,949; 6/30/10 - \$43,949; 6/30/11 - \$7,325.

The School District is leasing office space under an operating lease commencing September 1, 2005 and expiring August 31, 2012. Rent of \$125,000 was paid in advance at closing of the sale of North Lincoln School to the St. Joseph Lincoln Senior Citizen Center. Rent expense will be recognized ratably over the term of the lease.

NOTE 19. SALE OF SCHOOL BUILDINGS

During the school year ending June 30, 2006, the School District sold the Jefferson and North Lincoln School buildings. Proceeds on the sale of the Jefferson School building are recorded in the Capital Projects Sinking Fund and the sale of the North Lincoln School building is recorded in the General Fund.

**REQUIRED SUPPLEMENTAL
INFORMATION**

ST. JOSEPH PUBLIC SCHOOLS

REQUIRED SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE — GENERAL FUND
JUNE 30, 2006

	Original Budget	Final Amended Budget	Actual
Revenues			
Property taxes	\$ 4,977,234	\$ 4,664,500	\$ 4,610,040
Local sources	197,650	105,300	214,702
State sources	15,031,699	15,850,500	15,890,083
Federal sources	187,781	288,000	286,324
Interdistrict sources	250,000	356,700	395,537
Earnings on investments	35,000	45,000	54,187
Total Revenues	\$ 20,679,364	\$ 21,310,000	\$ 21,450,873
Expenditures - Current			
Instruction:			
Basic programs	\$ 11,258,634	\$ 11,179,400	\$ 11,427,240
Added needs	1,699,741	1,625,900	1,685,081
Adult and continuing education	-	-	-
Supporting services:			
Pupil	645,600	969,600	997,481
Instructional staff	1,469,793	1,723,600	1,691,762
General administration	337,000	333,800	330,447
School administration	1,144,800	1,315,100	1,270,008
Business services	607,300	715,300	652,584
Operations and maintenance	3,034,400	2,730,400	2,698,181
Transportation	794,221	844,600	848,397
Community services	-	88,800	105,206
Debt service	-	-	21,888
Capital outlay	-	12,500	-
Intergovernmental payments	-	21,000	39,232
Total Expenditures	\$ 20,991,489	\$ 21,560,000	\$ 21,767,507
Deficiency of Revenues under Expenditures	\$ (312,125)	\$ (250,000)	\$ (316,634)
Other Financing Sources (Uses)			
Proceeds from Loans	\$ -	\$ -	\$ -
Operating transfers in	-	-	-
Operating transfers out	(780,000)	(575,000)	(492,049)
Total other financing sources (uses)	\$ (780,000)	\$ (575,000)	\$ (492,049)
Net Change in Fund Balances	\$ (1,092,125)	\$ (825,000)	\$ (808,683)
Fund Balances - Beginning of year	2,402,952	2,402,952	2,402,952
Fund Balances - End of year	\$ 1,310,827	\$ 1,577,952	\$ 1,594,269

**OTHER SUPPLEMENTAL
INFORMATION**

ST. JOSEPH PUBLIC SCHOOLS

 COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2006

	Athletics Fund	Food Services Fund	2005 Refunding Bonds - Debt Service Fund	2001 School Building & Site Bonds - Debt Service Fund	2001 School Improvement Bonds	Total Non-Major Governmental Funds
Assets						
Cash and investments	\$ 61,940	\$ 64,545	\$ -	\$ 127,188	\$ 7,879	\$ 261,552
Receivables	-	-	14,536	-	-	14,536
Due from other governmental units	-	-	-	-	-	-
Due from other governmental funds	-	-	-	51,953	-	51,953
Inventories	-	21,360	-	-	-	21,360
Prepaid expenditures	-	5,000	-	-	-	5,000
Total Assets	\$ 61,940	\$ 90,905	\$ 14,536	\$ 179,141	\$ 7,879	\$ 354,401
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 7,000	\$ 7,000
Accrued salaries and withholdings	-	-	-	-	-	-
Due to other governmental funds	7,965	48,128	-	-	-	56,093
Total Liabilities	\$ 7,965	\$ 48,128	\$ -	\$ -	\$ 7,000	\$ 63,093
Fund Balance						
Reserved for inventories	\$ -	\$ 21,360	\$ -	\$ -	\$ -	\$ 21,360
Reserved for prepaids	-	5,000	-	-	-	5,000
Reserved for debt service	-	-	14,536	179,141	-	193,677
Reserved for capital projects	-	-	-	-	879	879
Unreserved and undesignated	-	-	-	-	-	-
Unreserved and undesignated - food service	-	16,417	-	-	-	16,417
Unreserved and undesignated - athletics	53,975	-	-	-	-	53,975
Total Fund Balance	\$ 53,975	\$ 42,777	\$ 14,536	\$ 179,141	\$ 879	\$ 291,308
Total Liabilities and Fund Balance	\$ 61,940	\$ 90,905	\$ 14,536	\$ 179,141	\$ 7,879	\$ 354,401

ST. JOSEPH PUBLIC SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NON MAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2006

	Athletics Fund	Food Services Fund	2005 Refunding Bonds - Debt Service Fund	2001 School Building & Site Bonds - Debt Service Fund	2001 School Improvement Bonds	Total Non-Major Governmental Funds
Revenues						
Property taxes	\$ -	\$ -	\$ -	\$ 1,621,627	\$ -	\$ 1,621,627
Local sources	301,306	704,719	-	-	-	1,006,025
State sources	-	34,045	-	-	-	34,045
Federal sources	-	197,545	-	-	-	197,545
Interdistrict sources	-	-	-	-	-	-
Earnings on investments	1,836	3,560	-	25,620	406	31,422
Total Revenues	\$ 303,142	\$ 939,869	\$ -	\$ 1,647,247	\$ 406	\$ 2,890,664
Expenditures						
Current:						
Instruction and Instructional support services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supporting services	748,528	956,899	-	-	4,914	1,710,341
Community services	-	-	-	-	-	-
Debt service	-	-	269,795	1,188,699	-	1,458,494
Capital outlay	-	-	-	-	-	-
Intergovernmental payments	-	-	-	-	-	-
Total Expenditures	\$ 748,528	\$ 956,899	\$ 269,795	\$ 1,188,699	\$ 4,914	\$ 3,168,835
Excess (Deficiency) of Revenues over (under) Expenditures	\$ (445,386)	\$ (17,030)	\$ (269,795)	\$ 458,548	\$ (4,508)	\$ (278,171)
Other Financing Sources (Uses)						
Operating transfers in	\$ 492,049	\$ -	\$ 686,776	\$ 9,271,750	\$ -	\$ 10,450,575
Refunding bonds issued	-	-	8,905,000	-	-	8,905,000
Bond premiums	-	-	100,133	-	-	100,133
Proceeds from the issuance of bonds	-	-	-	-	-	-
Payment to bond escrow agent	-	-	(135,828)	(9,271,750)	-	(9,407,578)
Bond issuance costs	-	-	-	-	-	-
Operating transfers out	-	-	(9,271,750)	(686,776)	-	(9,958,526)
Total Other Financing Sources (Uses)	\$ 492,049	\$ -	\$ 284,331	\$ (686,776)	\$ -	\$ 89,604
Net Change in Fund Balances	\$ 46,663	\$ (17,030)	\$ 14,536	\$ (228,228)	\$ (4,508)	\$ (188,567)
Fund Balances - Beginning of year	7,312	59,807	-	407,369	5,387	479,875
Fund Balances - End of year	\$ 53,975	\$ 42,777	\$ 14,536	\$ 179,141	\$ 879	\$ 291,308